

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-06 NEA-09 ISO-00 SP-02 AID-05 NSC-05

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COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-02 H-02 DODE-00 PA-01 USIA-06 PRS-01 PM-03

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P R 200817Z MAR 75

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC PRIORITY 0639

INFO AMCONSUL DHAHRAN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

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E.O.: 11652: N/A

TAGS: EFIN, IMF, US, SA

SUBJ: GOVERNOR QURAISHI ON RIYAL REVALUATION

BEGIN SUMMARY: GOVERNOR QURAISHI OF SAUDI MONETARY AGENCY  
IN A PRESS CONFERENCE BLAMED THE RIYAL REVALUATION SOLELY  
ON THE DOWNTURN IN THE VALUE OF THE DOLLAR. HE CLAIMED  
THE DECISION TO LINK WITH THE SDR WOULD PROVIDE STABILITY  
IN SAUDI IMPORT PRICES. HE NOTED THAT THE DECISION HAD NO  
CONNECTION WITH OIL REVENUE, WHICH WAS CALCULATED IN  
DOLLARS. END SUMMARY

1. IN ALMOST UNPRECEDENTED PRESS CONFERENCE MARCH 18,  
GOVERNOR ABD AL AZIZ QURAISHI OF THE SAUDI ARABIAN MONET-  
ARY AGENCY EXPLAINED THE REASONS BEHIND THE RECENT DECISION  
TO LINK UP THE RIYAL WITH THE SPECIAL DRAWING RIGHT AND  
REVALUE SLIGHTLY.

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2. QURAISHI EMPHASIZED THE INDEFINITE NATURE OF INTERNATIONAL MONETARY REFORM WITH FLUCTUATIONS EXPECTED TO CONTINUE UNTIL THE WHOLE OF THE NEW SYSTEM WAS AGREED. THE KINGDOM HAD FOLLOWED AN INDEPENDENT POLICY WITH REGARD TO THE RIYAL EXCHANGE RATE, ILLUSTRATED BY THE FACT THAT THE RIYAL HAD REMAINED STABILIZED WHILE THE DOLLAR HAD DECLINED TWICE DURING THE PERIOD DECEMBER 1971 TO FEBRUARY 1973, HE ADDED: "HOWEVER, BECAUSE THE KINGDOM'S OIL REVENUE AND ALL ITS FOREIGN EXCHANGE ARE IN DOLLARS AND ONLY AFTER EXHAUSTIVE STUDIES, THE KINGDOM REACHED THE DECISION THAT IT WAS NOT IN OUR NATIONAL INTEREST TO CONTINUE LINKING THE RIYAL TO THE DOLLAR." AFTER STUDIES, IT WAS DECIDED TO LINK IT WITH A BASKET OF CURRENCIES, THE SDR. THIS WOULD PROVIDE STABILITY FOR THE RIYAL EXCHANGE RATE WHICH WOULD LEAD TO STABILITY IN THE PRICES OF IMPORTS AND FIRM CONFIDENCE IN THE SAUDI RIYAL. OTHERS HAD ALREADY MADE THIS STEP IN THE GULF AND IN IRAN. THE DOLLAR, HE ADDED, WOULD REMAIN AS THE WORLD'S FIRST CURRENCY OF INTERNATIONAL EXCHANGE AND THE SDR CANNOT ABSOLUTELY REPLACE IT IN FOREIGN TRANSACTIONS.

3. COMMENTING ON THE CHANGE IN PURCHASING VALUE, QURAISHI SAID THAT THIS WOULD NOT NECESSARILY MEAN AN INCREASE IN THE VALUE OF THE RIYAL SINCE WITH FLUCTUATIONS IN THE SDR, THE RIYAL WOULD ALSO FLUCTUATE. ASKED ABOUT SURPLUSES, HE SAID THAT THE KINGDOM WOULD EXPLOIT THE SURPLUS IN TERMS OF LOANS AND INVESTMENTS IN ADDITION TO ECONOMIC AND FINANCIAL AIDS TO FRIENDLY COUNTRIES.

4. HE SPECIFICALLY COMMENTED REGARDING THE EFFECT ON OIL REVENUE OF LINKING THE RIYAL WITH THE SDR SAYING THAT THERE WAS NO SUCH CONNECTION. THE KINGDOM'S REVENUE IS CALCULATED PER BARREL IN DOLLARS, NOT IN RIYALS.

5. LATER, AT A SPECIAL BRIEFING FOR COMMERCIAL BANKERS, QURAISHI SAID THAT EACH MORNING SAMA WOULD ANNOUNCE THE RATE IN TERMS OF CHANGES IN THE SDR AND THE MINOR CHANGES (LESS THAN ONE HALLALA) WOULD NOT BE CONSIDERED SIGNIFICANT. THIS IS A MODIFICATION OF EARLIER STATEMENTS BY OTHERS IN SAMA BUT THE RATE REMAINED ON MARCH 19 AT 3.47 TO THE LIMITED OFFICIAL USE

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DOLLAR. IN ADDITION, THE SAMA ANNOUNCEMENT OF THE CHANGE MAINTAINED THE SAME IMF RATE FOR GOLD AS BEFORE.

COMMENT: THE MAJOR JUSTIFICATION FOR THE CHANGE IN LINKAGE WAS CERTAINLY TO REDUCE PRESSURES FOR A SUBSTANTIAL DIRECT REVALUATION. NEVERTHELESS, THERE WILL CONTINUE TO BE SPECULATION ABOUT POSSIBLE CASE OF INDEXING THE PRICE OF OIL BY OPEC COUNTRIES SWITCHING THE PRICE INTO TERMS OF LOCAL

CURRENCIES TIED TO SDR'S.

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